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SUBJECT: RECENT DEVELOPMENTS IN VIETNAM'S STOCK MARKET

1. (U) Summary. Econ Counselor met with State Securities Commission (SSC) Vice Chairman who spelled out his vision for expanding Vietnam's capital markets. The Vice Chairman confirmed the Prime Minister's recent decision to place the SSC directly under Ministry of Finance authority. DPM Vu Khoan has been pushing for more listings on the local stock markets. The SSC and its young staff are working to prepare for a more active financial market. End Summary.

2. (U) February 25, Econ Counselor called on State Securities Commission (SSC) Vice Chairman, Nguyen Doan Hung and discussed the role of SSC in regulating Vietnam's capital markets. Prior to assuming his current position, Hung previously worked at the World Bank in Washington from 1999 to 2002 as an Alternate Executive Director. Hung served as the Director of the Foreign Exchange Department from 1996-1999 and as an Administrator from 1993-1996, both at State Bank of Vietnam.

3. (U) The SSC's 350 person staff regulates the securities industry and the Ho Chi Minh City-based Securities Trading Center (STC), which was established in July 2000. Many of the SSC's staff are recent college graduates who have received training from Thai, Korean, and Taiwanese Stock Exchange experts, including short-term training and study tours. According to Hung, the stock market's total capitalization currently is about 1,100 billion VND (approx. \$70 million USD) with 22 listed firms. The composition of 22 traded companies on the STC is as follows: 1 company is joint stock company and 21 companies are former-state owned enterprises (SOEs) that have been equitized. The state ownership in those companies now is between 20 and 30% on average. In most cases, the state still retains part ownership of the traded companies. The STC also trades bonds, all but one of which are government-issued. The bond market is valued at approximately 10,000 billion VND (approx. US\$640M).

4. (U) Hung stated that the State Securities Commission, which currently reports directly to the Prime Minister, would move under the authority of the Ministry of Finance in the near term, thus losing its status as an independent regulator. The Prime Minister had approved this shift earlier in the week. According to Hung, the justification for this move was to push the Ministry of Finance to cause more SOEs to privatize or equitize. Moreover, the Prime Minister has assigned the Minister of Finance to work with the Ministry of Planning and Investment to encourage large companies, including SOE monopolies, to privatize, and foreign invested companies to list, on the STC. Hung also said that the GVN might seek to list Vietnam Airlines in the future. Hung attributed the current dearth of STC listings to higher standards of corporate governance and international standards of accounting disclosures required for listing.

5. (U) The STC is open for business daily with morning and afternoon sessions, and utilizes software developed in Chicago and provided by the Thai Stock Exchange, according to Hung. All brokerage firms currently operating in Vietnam are 100% domestic-owned companies or joint stock companies with limited foreign participation. Banks are not permitted to invest directly in the capital market unless they establish subsidiary brokerage firms. According to Hung, there have been no instances to date of impropriety or insider trading on the STC.

6. (U) Hung noted that the GVN, especially Deputy Prime Minister Vu Khoan, is pushing to increase the number of listings on the STC and is developing strategies for encouraging major firms in key industries, such as banking, petroleum, and telecommunications, to list. (Note: According to press reports, the Prime Minister met with the State Securities Commission (SSC) in the middle of February with the PM noting the need to ease the burden on banks supplying long-term capital to the economy. End Note.)

7. (U) According to Hung, so far, most investors on the STC are individual investors, with a small minority of institutional investors, venture capitalists, and insurance companies. (Note: According to a recent Asian Development Bank report, individual investors number 15,000 of the STC's participants, whereas a mere 130 institutional investors are active. The report notes that over 100,000 shares trade daily on 1,500 executed orders. End note.)

18. (U) Hung added that the GVN's long-term ten year plan includes the opening of a Hanoi Trading Center by the end of 2004, followed thereafter by an over-the-counter (OTC) exchange to handle small and medium-sized enterprise listings. As capital markets expand in Vietnam, Hung recognizes that greater demands for training, capacity-building, and technical expertise transfer will also arise.

19. (U) Hung described how Vietnamese savers are slowly shifting from investment vehicles such as metals, jewelry, land, and foreign exchange into stocks, bonds, and savings accounts. Hung attributed the transformation to the low, inflation rates of the last ten years. Hung also noted that he believes that Vietnamese real estate is near a valuation peak, which he called a "bubble," and that this may consequently drive increased shifts into equity and debt investments. Hung believes that targeted tax policy planning, especially on capital gains, may assist with stemming real estate speculation since there is currently no capital gains tax on capital market investments.

110. (U) Comment: While the GVN's recognition of the need for further privatization is encouraging, the decision to eliminate the independence of the SSC by placing it under the rather conservative Ministry of Finance is not. End Comment.

BURGHARDT